

TRANSITION AND SOCIAL PROTECTION PROGRAM

(HO-0145)

EXECUTIVE SUMMARY

Borrower and guarantor:	Republic of Honduras	
Executing agency:	Office of the Secretary of State in the Office of the President, through the Technical Support Unit (UNAT)	
Amount and source:	IDB: (FSO, foreign exchange)	US\$30 million
	Total:	US\$30 million
Financial terms and conditions:	Amortization period:	40 years
	Disbursement period:	18 months
	Grace period:	10 years
	Interest rate:	1% for 10 years and 2% thereafter
	Inspection and supervision:	1% of the loan amount
	Credit fee:	0.5% annually on the undisbursed balance
Objectives:	<p>The goal of the program is to help improve the living conditions of the impoverished population. In the post-Mitch context, the most important initiatives for achieving this goal are those that help reconstruct and transform the social sector in accordance with the three following objectives.</p> <p>First, the budget crisis spurred by the hurricane will be prevented from interrupting the process of transformation of the social sector launched before Mitch into models for greater efficiency and participation in the provisions of services. Second, a significant increase in the sector's management and implementation capacities will be achieved, without which it will be impossible to provide the levels of social services that are required or to initiate new reforms. Third, the formulation of a policy framework for the sector will be promoted, that sets it on a course toward greater coordination, participation, and transparency.</p>	

Description:

In years past, various social sector initiatives were not satisfactorily implemented owing to the weak capacity of the line ministries, and the lack of an adequate policy framework. The hurricane has simply made this situation worse. In this context, the program will use a fast-disbursing sector loan to support a series of concrete measures and policy decisions designed to preserve the progress already achieved in the transformation process, while at the same time instituting measures for management and efficiency that will later lead to a more in-depth reform of the sector and to higher quality and coverage of social services.

The program has been structured to ensure that previous gains are not lost; to promote measures that reduce management and implementation weaknesses on the part of the line ministries; and to develop the institutional capacity that will ensure a rational, transparent use of public resources.

The program components are described below.

- (i) **Protection of priority programs:** In times of severe fiscal problems, such as the one caused in Honduras by Hurricane Mitch, investment programs and reform initiatives are generally more vulnerable to cutbacks than are recurrent expenses. Therefore, this component seeks to ensure that specific programs highlighting the sector's transition to more efficient service delivery and broader participation by the public are not interrupted. To that end, financial and physical goals will be achieved in the areas of education, health, and social welfare in order to obtain real increases over the levels reached during the previous year in general.
- (ii) **Improving managerial capacity:** Before the hurricane, the limited absorption capacity of the line ministries in the social sector already presented a bottleneck for implementing projects that introduce new modalities and procedures, for launching new reform initiatives, and for expanding the provision of services. The situation has grown worse because of Mitch, increasing demand while further reducing the implementation capacity of the ministries. Therefore, this component will establish strategies for implementing efficiency measures. Existing programs will be relied upon to provide continuity in the efficiency measures launched by this program.

- (iii) **Policy framework:** Coordination in the sector needs to be institutionalized, particularly during a period of nationwide reconstruction and transformation. Therefore, a new agency will be established for the sole purpose of promoting the formulation and implementation of social policies. This agency will foster the development of sector strategies, set overall goals, coordinate mechanisms and procedures, and maintain coordination facilities for maximizing the impact of the initiatives launched. Furthermore, after consultation with the parties involved, the government will implement a municipal development plan, which will set forth strategies for consolidating methodologies, assigning functions, developing procedures that guarantee the full participation of the agencies involved, and implementing oversight and evaluation mechanisms.

Relationship of project to Bank's country and sector strategy:

The program is consistent with the mandate of the Eighth General Increase in Resources of the Bank with regard to the priority assigned to the social sector and to loans in support of political reforms in that sector, which must be linked to the country's commitment to provide internal resources for certain priority programs. Furthermore, it is consistent with the mandate to emphasize public sector reform, including budget and spending policies. (AB-1704, paragraphs 2.52 and 2.54)

The program is also consistent with the country paper for Honduras currently pending approval by the Board of Executive Directors of the Bank. The program reflects the support program for the 1999-2001 period, submitted to the Bank by the Government of Honduras, which assigns high priority to promoting the institutional strengthening of the units responsible for implementing Bank-financed projects.

The program is consistent with the country paper strategy, since it will promote improvements in the capacity for action of the executing units in the social sector. The operation is also consistent with the goal of alleviating poverty through actions to improve access to social services for vulnerable groups and to reduce rural poverty. The operation is also part of the coordinated efforts of the IDB, the International Monetary Fund, and the World Bank to support the reconstruction and transformation of the country, emphasizing macroeconomic stability, consolidation of social sector reforms, and the protection of the most vulnerable groups (paragraphs 1.20-1.25).

Environmental and social review:

With regard to gender issues, the role of the indigenous population, and environmental protection, the project will follow the arrangements that have already been established for the social programs and projects that will be supported by this operation. In the areas of education, health, and welfare, the projects and programs have primarily been developed with the participation of international agencies, – including the IDB, the World Bank, GTZ, USAID, etc. Hence they incorporate the standards of these institutions with regard to environmental and social considerations. Furthermore, all the programs comply with the country's environmental standards and procedure (paragraph 4.11).

The initiatives to be undertaken for establishing consensus-based procedures for formulating policies and setting priorities must be underscored. The program will make a fundamental contribution to opening up new avenues for the participation of civil society in formulating strategies and in carrying out activities in the social sector. Furthermore, the component for the protection of priority programs will support initiatives by the Ministry of Health to devote a portion of its budget to covering the costs of maintaining infrastructure and treating hospital waste (paragraph 4.12).

Benefits:

The program will contribute to improving the living conditions of the impoverished population through measures that ensure that there will be no interruption in programs mainly designed to provide social services and allocations for underserved, needy groups. This will result in greater equality in the provision of social services (paragraph 4.15).

The focus on increasing management capacity is of vital importance at this time since Hurricane Mitch has increased demand while simultaneously reducing the management capacity of the agencies that implement social programs. The program will give the line ministries comprehensive strategies for increasing their capacities, which will enhance the viability of any preexisting or new initiative in the sector (paragraph 4.16).

Initiatives for the policy framework of the social sector are a very high priority for the country, given that the lack of effective coordination is even more important at the moment when a nationwide reconstruction and transformation effort has been mounted and new interventions are expected in all areas. Not only will the program establish links for interagency exchanges and cooperation, but it will also strengthen the mechanisms for consensus-building among the agencies involved in both formulating and implementing social sector policy (paragraph 4.17).

Risks:	Consistency of strategies: The government's strategy for reconstruction is consistent with the program objective of preserving advances made in social sector transformation and laying the foundation for new improvements. Nonetheless, there is heavy demand to act immediately to repair the damage caused by Hurricane Mitch, even at the expense of previously achieved reforms. The intense political pressure created by this demand is a palpable risk in terms of accomplishing the program's goals, since the program aims at more deliberate advances by building consensus on development policies, formulating projects that reflect lessons learned, and taking advantage of the massive reconstruction to set the country on a new course of development. It is therefore very important that the government fully commit to the program goals. Note should be taken of the initiatives already taken to establish effective coordination links and monitoring systems, in order to avoid any deviations from the conditions agreed upon (paragraph 4.18).
Special contractual conditions:	<p>(i) The loan will be disbursed in two tranches, in the amounts of US\$20 and US\$10 million, respectively. As a condition precedent to disbursement of each tranche, the borrower will present evidence satisfactory to the Bank that: (I) the macroeconomic environment is consistent with the program objectives; and (ii) the conditions established for the program components, indicated in the conditionality matrix attached as Annex I to this document, have been fulfilled (paragraph 3.26).</p> <p>(ii) In addition to the standard reports, UNAT must submit the final report described in section E of chapter III.</p>
Poverty-targeting and social-sector classification:	This operation qualifies as a project as a social equity enhancing project, as described in the key objectives for the Bank's activities set forth in the Report on the Eighth General Increase in Resources (document AB-1704).
Exceptions to Bank policy:	None
Procurement:	Not applicable, as discussed in paragraphs 3.33-3.36.